Management's Discussion and Analysis

Overview of NECA

INTRODUCTION

This Performance and Accountability Report (PAR or report) contains management and financial information about the National Exchange Carrier Association's (NECA) administration of the Interstate Telecommunications Relay Services (TRS) Fund.

Management's Discussion and Analysis includes an overview of NECA and its vision and organizational structure; an overview of the TRS Fund Fiscal Year 2006; and support for the Supplemental Schedule. TRS financial statements for FY 2006 and notes to the financial statements complete the PAR.

ABOUT NECA AND THE TRS FUND

The Federal Communications Commission (FCC) formed NECA in **1983** to perform telephone industry tariff filings and revenue distributions following the breakup of AT&T. NECA is a not-for-profit corporation responsible under Subpart G of the Commission's Part 69 rules for administering interstate access charge pools for participating local exchange carriers (LEC) and the TRS Fund.

Access charges are the fees long distance companies pay to access the local phone network to complete calls. These charges help ensure that telephone service remains available and affordable in all parts of the country. NECA manages the distribution of these interstate access revenues through revenue pooling. More than **1,150** LECs voluntarily participate in NECA's access charge revenue pools. NECA provides the following services to these companies:

- Files access charge tariffs with the FCC
- Collects and validates cost and revenue data
- Ensures compliance with FCC rules
- Distributes revenues from access charges among pool members. based on each company's costs of providing interstate access
- Processes FCC regulatory fees
- Offers training and education on a wide variety of telecom topics

In **1993,** NECA was appointed administrator of the Interstate TRS Fund because of its experience in administering the access pool, including the Universal Service Fund and Lifeline Assistance programs, and because of many positive comments received in support of NECA received during the shared funding rulemaking process. The FCC reappointed NECA twice, in **1995** and **1999.** In 2003, the FCC extended NECA's term on a month-to-month basis.

NECA administers the TRS Fund under the FCC's direction. The TRS Fund compensates relay service providers for the reasonable costs of offering services that enable a person with a hearing or speech disability to communicate with a person without such a disability. The costs of providing relay services are recovered from subscribers of interstate telecommunications services through a shared funding cost recovery mechanism.

NECA is headquartered in Whippany, NJ with seven regional offices located throughout the nation.

NECA's Board of Directors has 15 members. Ten Directors represent three membership divisions and five represent all members (outside Directors). FCC rules established the Board size and the representative groupings, which are as follows:

Subset 1	Bell Operating Companies, two representatives
Subset 2	Other telephone companies with revenues of $40 million or more, two representatives
Subset 3	All remaining telephone companies, six representatives
Outside	Non-telephone Directors representing all subsets, five representatives

NECA VISION

NECA will play a vital role in the 21st century telecommunications industry, helping member companies and others assure the benefits of advanced telecommunications services are available to all consumers at affordable rates.

NECA operates under the following guidelines:

Respect:	We treat each other with respect and dignity, valuing individual and cultural differences.
Integrity:	We are honest and ethical in our business dealings starting with how we treat each other.
Teamwork:	We encourage and reward both individual and team achievement.
Effectiveness:	We assure that every use of NECA resources produces a benefit to our internal and external customers.

NECA TRS REPORTING STRUCTURE

Three staff members in the Universal Service Program Support directorate of NECAs Operations Department are dedicated solely to the day-to-day administration of the TRS Fund. Their primary responsibilities are provider cost and demand data analysis, provider reimbursement, carrier contribution management, and financial reporting. In addition, personnel in the Financial Operations and General Accounting and Tax groups in the Finance Oepartment support the billing, collection, disbursement and reporting functions related to the Fund.

INTERSTATE TRS FUND, Fiscal Year 2006

The audit of FY 2006 covers the period from October 1, 2005 through September 30, 2006. The current Funding period for the TRS Fund is July of one year through June of the following year. In mid-2004, NECA requested and the FCC approved the change of the fiscal period from July – June, coincident with the funding period, to October – September, coincident with the FCC's fiscal year. This step was taken to facilitate the effort associated with the audit of the TRS Fund as part of the FCCs financial statements, performed annually between February and October; July through September 2004 was audited separately.

The Interstate TRS Fund continued its unprecedented growth from a fund size of $90 Million for the 2002 – 2003 funding period to $170.5 Million for 2003 – 2004, $289 Million for 2004 – 2005 $441.5 Million for 2005 – 2006 and $419.7 Million for 2006 – 2007. There was a decline in the fund requirement for the 2006 – 2007 funding period primarily due to a surplus from the previous funding period used to offset this periods requirement. This growth is directly attributable to FCC decisions related to the reimbursement of Internet Protocol (IP) and Video Relay Service (VRS) minutes. Prior to the introduction of those services, only interstate and international traditional TRS and Speech-to-

Speech (STS) minutes were reimbursable from the TRS Fund. When the FCC authorized reimbursement of IP and VRS, it was for all minutes attributable to those services.

Traditional interstate TRS minutes grew steadily from the TRS Fund's inception in 1993 through 1998 but growth was basically flat between 1999 to 2001, beginning each year with 2.8 - 2.9 Million minutes and ending with 2.7 - 2.8 million minutes. In January 2002, 2.9 million traditional TRS minutes were reported. In December 2002, after the introduction of VRS and IP, only 2.3 million traditional TRS minutes were reimbursed. Traditional interstate TRS minutes reported in September, the last month of FY 2006, totaled only 1.14 million compared to 6.7 million IP and 3.8 million VRS minutes.

Although the FCC authorized the reimbursement of all VRS minutes on a temporary basis in a March 2000 Report and Order, it was not until the FCC granted requests for waivers of certain VRS requirements in a December 31, 2001 Order that providers began to offer the service. The number of providers grew from two in January 2002 to nine in December 2006. During FY 2006, there were more VRS providers than providers of traditional TRS.

In April 2002, the FCC approved the reimbursement of all IP Relay minutes from the Interstate TRS Fund. Because there was no automatic means to determine whether a call made via IP Relay was intrastate or interstate, the FCC authorized the recovery of all costs associated with providing the service from the TRS Fund on an interim basis. In March 2003, the FCC directed NECA not to pay for IP Relay minutes placed to international locations due to the apparent fraudulent use of the service discovered by NECA. Seven providers offered IP Relay during FY 2006.

SUPPLEMENTAL SCHEDULE - Program Costs and Unaudited Budget (in Thousands)

Monthly provider reimbursement projections are developed after determining the growth rates for each of the four relay services - interstate traditional TRS, STS, IP and VRS - in April each year in conjunction with the annual fund filing. The monthly projections for each service are multiplied by the per minute reimbursement rate for each and added together to arrive at the total monthly projection. For FY 2006, provider reimbursement projections totaled $420,479; actual reimbursement was $402,383 for a difference of ($18,096). This difference is attributable, on average, to both traditional TRS and IP actual minute results under budget.

Two reimbursement true-ups that were not anticipated in the projections, of $3,565 and $7,894 respectively, occurred during FY 2005, and contributed to the difference. The January 2005 true-up of $3,585 was due to an FCC Order increasing certain per minute reimbursement rates and applied to all providers. Another FCC Order authorized the March 2005 true-up of $7,894 that reimbursed a single provider for minutes processed but not previously paid.

Administrative expenses increased $69 over projection primarily because of additional expenses in the area of billing and collections.

Uncollectibles have decreased significantly during FY 2006 due to increased collection efforts and the impact of the implementation of the Red Light Rule portion of the Debt Collection Improvement Act (DCIA). Under the Red Light Rule, the FCC will not fulfill the requests of any carrier who has not paid its contribution to the TRS Fund. Carriers are also more aware that their delinquency will be transferred to the FCC if it is not paid by ninety days following the payment due date.

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Independent Auditors' Report

To the Board of Directors,
National Exchange Carrier Association, Inc

We have audited the balance sheets of the Telecommunications Relay Services Fund (the "TRS Fund) administered by the National Exchange Carrier Association, Inc. (the "Company") as of September 30, 2006 and 2005, and the related statements of net cost and changes in net position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TRS Fund at September 30,2006 and 2005, and its net cost, and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 15. 2007 on our consideration of the TRS Funds internal control over financial reporting, and on our tests of the TRS Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audits performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis and Supplemental Schedule – Program Costs and Unaudited Budget is not a required part of the basic financial statements but is supplementary information in accordance with OMB Circular A-136, as applicable. We have applied certain limited procedures to such information. which consisted principally of inquiries of the TRS Funds management regarding the methods of measurement and presentation of the supplemental schedule. However, we did not audit the information and express no opinion on it.

Withum Smith + Brown P.C.

Princeton, New Jersey
February 15,2007

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors,
National Exchange Carrier Association, Inc:

We have audited the financial statements of the Telecommunications Relay Services Fund (the "TRS Fund) as of and for the years ended September 30, 2006 and 2005, and have issued our report thereon dated Februaiy 15, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered National Exchange Carrier Association's (NECA's) internal control, in its role as administrator of the TRS Fund, over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the TRS Fund's financial statements are free of material misstatement, we performed tests of compliance of NECA as administrator for the TRS Fund with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of NECA and the Federal Communications Commission and is not intended to be and should not be used by anyone other than these specified parties.

Withum Smith + Brown P.C.

February 15, 2007

Telecommunications Relay Services Fund
Balance Sheets
September 30,2006 and 2005
(in thousands)

	2006	2005
Assets		
Cash and other monetary assets	5 546	$ 113
Investments in United States Treasury Securities, net of discount and amortization	138,833	95,242
Accounts receivable. net	18,917	2,241
Total assets	$ 158.296	$ 97,596
Liabilities		
Accrued liabilities	$ 36,334	$ 28.538
Deferred revenue	30.921	32,503
Prepaid contributions	1,404	369
Accounts payable	61	60
	68,720	61,470
Net Position		
Cumulative results of operations	69.576	36,126
Total liabilities and net position	$ 158.296	$ 97.596

The Notes to Financial Statements are an integral part of these statements.

Telecommunications Relay Services Fund
Statements of Net Cost
For the Years Ended September 30,2006 and 2005
(in thousands)

	2006	2005
Program Costs:		
Provider reimbursements	$ 402,383	$ 297,486
Administrative expenses	888	745
Uncollectibles	650	13,784
Total costs	403,921	312,015
Net Cost of Operations	$ 403,921	$ 312,015

The Notes to Financial Statements are an integral part of these statements.

Telecommunications Relay Services Fund
Statements of Changes in Net Position
For the Years Ended September 30,2006 and 2005
(in thousands)

	2006	2005
Cumulative Results of Operations - Beginning Balance	$ 36,126	$ 13,338
Financing Sources:		
Carrier contributions	451.872	332,985
Interest revenue	5,274	1,633
Other	225	185
Total Financing Sources	493,497	348,141
Less: Net Cost of Operations	403,921	312,015
Cumulative Results of Operations -Ending Balance	$ 89.576	$ 36.126

The Notes to Financial Statements are an integral part of these statements.

(in Thousands)

1. Reporting Entity

The sole reporting component is the Telecommunications Relay Service Fund (the "TRS Fund"). The TRS Fund is a not-for-profit fund established by the Federal Communications Commission (the "FCC") in 1993, in accordance with Title IV of the Americans With Disabilities Act, which required nationwide Telecommunications Relay Services ("TRS"). Traditional TRS allow people with hearing and/or speech disabilities who use text telephones to talk with people who use standard telephones. In a March 2000 Report and Order, the FCC added Speech to Speech ("STS") to the list of required services. STS involves the use of specially trained Communications Assistants who understand the speech patterns of persons with speech disabilities. In the same March 2000 Order, the FCC encouraged the offering of Video Relay Service ("VRS") to make it easy for a sign language user to make a TRS call. VRS allows a person using sign language to communicate visually with an interpreter at the VRS center instead of using a text telephone to converse with a Communications Assistant. In April 2002, the FCC authorized reimbursement of Internet Protocol ("IP") Relay Services. IP relay users access the service via the Internet. In August 2003, the FCC determined eligible providers of Captioned Telephone VCO service ("CTV") are eligible to be reimbursed for interstate minutes.

The FCC named the National Exchange Carrier Association, Inc. ("NECA" or "the Company") as administrator of the TRS Fund. NECA was appointed to serve as the administrator through July 25, 2003 (Memorandum Opinion and Order, CC Docket No. 90-571 released July 1, 1999). On July 11, 2003, NECA's term was extended by the FCC on a month-to-month basis until terminated in writing by them.

TRS funds are collected from all common carriers providing interstate services and distributed monthly to qualified relay service providers ("service providers"). The annual contribution factor is developed by NECA and approved by the FCC based upon estimates of the revenue requirements necessary to provide services in the upcoming 12-month period. The factor is determined by taking into consideration the projected funding requirements of providing interstate TRS (including CTV) and STS, intrastate and interstate VRS and IP Relay Services, an uncollectible allowance of 10%, interest income. and any fund surplus/shortfall which is carried over from the prior year.

The common carriers' annual contribution factor, approved by the FCC, was .00564 per each dollar of interstate revenue reported by the common carriers for the period July 1, 2005 through June 30, 2006, and ,00535 per each dollar of interstate revenue reported by the common carriers for the period July 1, 2006 through June 30,2007. The common carriers' contributions are shown on the statement of changes in net position as "carrier contributions" as prescribed by the FCC in Part 64 of Title 47 of the Code of Federal Regulations.

The FCC rules require common carriers to file their Form 499-A reporting their revenues annually. The "accounts receivable" on the balance sheet, as well as the "carrier contributions" on the statement of changes in net position reflect the contributions based on revenues that are reported by the wmmon carriers.

Payments to service providers for TRS (including CTV), STS. CTS, VRS and IP Relay Services are based on conversation minutes, as submitted by the service providers, multiplied by a rate per minute as calculated by NECA and approved by the FCC. The rate per minute is an average rate among all service providers and is calculated based on total estimated costs to provide each service divided by total expected conversation minutes to be provided.

The following table illustrates the rates in effect during the reporting period.

	TRS	STS	VRS	IP RELAY SERVICES
711/05-6/30/06	$1.440	$1.579	$6.644	$1.278
711/06-6/30/07	$1.291	$1.409	$6.644	$1.293

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with U.S. Federal generally accepted accounting principles and the form and content for entity financial statements specified by OMB Circular A-136, as applicable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds, at several financial institutions, with an original maturity when purchased of three months or less.

Investments

Treasury Securities are considered held to maturity investments, regardless of original maturity when purchased. Investments are reported at amortized cost.

Allowance for Doubtful Accounts

Allowance for doubtful accounts amounted to $14,365 and $13,943 at September 30,2006 and 2005, respectively to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of $228 and $2,392 were written off during the year ended September 30,2006 and 2005, respectively.

Revenue Recognition

Carriers contributing into the TRS Fund, fife Form 499-A with the Data Collection Agent ('DCA"). The Form 499-A reports the carrier's interstate and international revenue. This information is used to compute the carrier's contribution for the funding year based upon the FCC approved contribution factor. The Form 499-A computes TRS Fund contributions for the period July 1, through June 30, of the subsequent year. Carriers must submit their contribution in July for the entire year, unless the annual contribution exceeds one thousand two hundred dollars, which allows the carrier the option to remit payment on a monthly straight line basis.

The TRS Fund recognizes revenue on a monthly basis to match monthly minute reimbursements to service providers.

During the years ended September 30, 2006 and 2005, the TRS fund recognized three months of required contributions for those carriers who elected to remit monthly for the 2006-2007 and 2005-2006 funding period, respectively. The TRS Fund also recognized 3 months of the total required contribution for those carriers who were required to remit annually for each funding period payment, and the remaining 9 months of the required contribution is reflected in deferred revenue. Deferred revenue at September 30, 2006 and 2005 was $30,921 and $32,503, respectively.

Retroactive Billing Adjustments

Contributors to TRS are permitted to revise their revenue data, which may result in adjustments to amounts previously billed. The TRS Fund has recorded these adjustments in current period billings rather than reflecting these adjustments in the period in which they pertain. Likewise, certain adjustments affecting contributions to the TRS Fund may happen subsequent to the financial statement date. These adjustments are recorded and recognized in the subsequent period or periods. The current period financial statements reflect known adjustments occurring within one month subsequent to period end.

(in Thousands)

3. Administrative Expenses

Administrative expenses for the years ended September 30,2006 and 2005 follows:

	2006	2005
Direct labor costs	$ 270	$ 280
NECA allocated common costs	397	328
Miscellaneous	93	51
Consultants	56	28
Data collection agent	65	47
Travel	7	11
Total administrative costs	$ 888	$ 745

NECA administrative expenses charged to the TRS Fund are allocated in accordance with NECA's Cost Accounting and Procedures Manual ("CAM") filed with and approved by the FCC annually. NECA annually submits a Statement of Cost Allocation System Compliance to the FCC for which a schedule of costs incurred by category (including the TRS Fund) is attached. NECA has independent auditors review its cost allocation procedures to ensure such procedures are in compliance with the CAM. The latest audit report issued was dated March 10,2006 and covers the year ended December 31,2005.

Costs for NECA personnel specifically assigned to the TRS Fund such as salaries, benefits and travel are directly charged to the TRS Fund. Common costs are accumulated in defined cost pools and allocated on a monthly basis to the TRS Fund using activity based cost drivers as further described in NECA's CAM. These costs include legal, auditing, finance, information systems, facilities and general overheads.

Beginning on January 1, 2000, NECA, under contract with the Universal Service Administrative Company ("USAC"), acted as the DCA for the TRS Fund. As the DCA, NECA collected revenue information from interstate telecommunications service providers on FCC Form 499-A and allocated the cost associated with the collection process to the various programs. For the period October 1, 2004 through December 31, 2004 TRS was allocated 8% of total DCA expenses. For the period January 1, 2005 through September 30,2006, USAC performed the DCA function and TRS paid USAC 8% of total DCA expenses.

4. Publix Contingency

On March 15, 2005 the FCC released a Consent Order, FCC 05M-12, which approved the Consent Decree between the Enforcement Bureau of the FCC and the Publix Companies. The Decree ordered Publix to return past provider reimbursements totaling $7,964. This amount was fully reserved and included in uncollectibles. In addition, Publix agreed to pay restitution totaling $2,000, of which $1,790 is reserved and included in uncollectibles.

5. Taxes

The TRS Fund was established in accordance with the Americans with Disabilities Act directed by the FCC and therefore not subject to Federal or state income, sales, use, gross receipts or other taxes. As such, no provision for such taxes has been reflected in the accompanying financial statements.

6. Concentrations

The TRS Fund periodically maintains cash balances at various financial institutions, and may at times exceed amounts insured by the Federal Deposit Insurance Corporation. Since these are high quality financial institutions, management does not believe the TRS Fund is exposed to any risk on cash balances.

(in Thousands)

7. Investments

The following summarizes Investments as of September 30, 2006:

Marketable Securities:	Maturity Value	Discount	Amortized Discount	Amortized cost	Market Value Disclosure
Treasury Bills	$ 139,922	($ 2,064)	$ 975	$ 138,833	$ 138,900

The investment portfolio as of September 30, 2006 consists of several Treasury Bills with an original maturity ranging from 77 days to 174 days, and includes interest at a rate ranging from to 4.91% to 5.10%.

The following summarizes Investments as of September 30, 2005:

Marketable Securities:	Maturity	Discount	Amortized Discount	Amortized Cost	Market Value Disclosure
Treasury Bills	$ 96,000	($ 997)	$ 239	$ 95,242	$ 95,275

The investment portfolio as of September 30, 2005 consists of several Treasury Bills with an original maturity ranging from 90 days to 153 days, and includes interest at a rate ranging from to 3.44% to 3.54%.

The TRS Fund recognizes interest income based upon straight line amortization. All Treasury securities, regardless of the original maturity date, are reported as Investments. The TRS Fund generally expects to hold investments to maturity; therefore, no adjustments have been made to present market values.

SUPPLEMENTARY INFORMATION

Telecommunications Relay Services Fund
Supplemental Schedules - Program Costs and Unaudited Budget
For the Years Ended September 30, 2006 and 2005
(in thousands)

	2006			2005		
Program Costs:	Actual	Unaudited Budget	Over/(Under) Budget	Actual	Unaudited Budget	Over/(Under) Budget
Provider reimbursements	$ 402,383	$ 420,479	$ (18,096)	$ 297.486	$ 293,221	$ 4,265
Administrative expenses	888	819	69	745	492	253
Uncollectibles	650	43,000	(42,350)	13,784	30,300	(16,516)
Total costs	403,921	464,298	(60,377)	312,015	324,013	(11,998)
Net Cost of Operations	$ 403,921	$ 464,298	$ (60.377)	$ 312,015	$ 324,013	$ (11,998)

See Independent Auditors' Report